

The next step toward decarbonization

Scope 3 emissions reduction

Roland Berger & Swissmem survey

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SWISSMEM

Roland
Berger



Many companies in Europe are already working hard to mitigate climate change by reducing CO₂ emissions. Swissmem member firms, for example, are known to have slashed their Scope 1 emissions by a full 55% since 1990. Aware that much more remains to be done, however, Swissmem and Roland Berger wanted to find out where the corporate community stands today with regard to Scope 3 emissions too (see next page for definition). And, since no comparable countries have yet collected this kind of data, surveying Swissmem members seemed a good place to start.

Specifically, the survey leaders wanted to know what importance companies of different sizes and in different industries attach to Scope 3 emissions. Are they seen as relevant? And if so, how do companies plan to reduce these emissions – and how ambitious are their plans? What is driving this commitment? What timelines are companies working to, and what impacts do they anticipate?

Another aim was to identify how efforts to reduce Scope 3 emissions can be helped and encouraged. What conditions must be put in place? Where do gaps exist and how can they be plugged? How can advances in cutting Scope 3 emissions be measured in consistent and comparable ways both within and across industries? And what role does collaboration play?

The survey's findings paint a clear picture of where industrial companies are at on this issue and what they see as important going forward.

Definition of Scope 1, 2 and 3 emissions

The Greenhouse Gas (GHG) Protocol distinguishes between three categories or "Scopes" of GHG emissions.

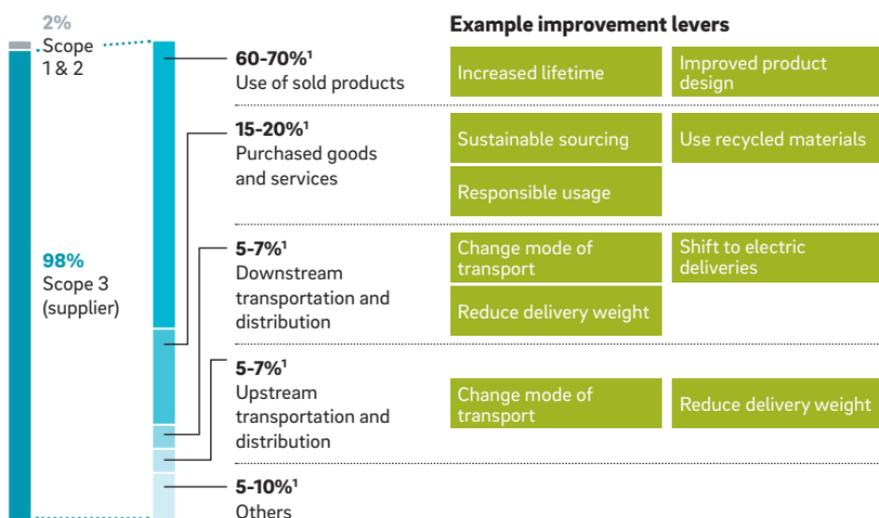
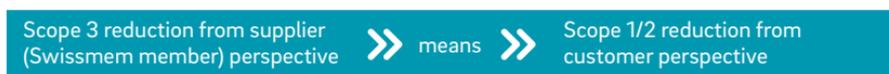
Scope 1 emissions are given off directly by the (re)sources a company owns and controls. Examples include direct fuel combustion in its manufacturing processes, emissions from company vehicles and fugitive emissions.

Scope 2 emissions are indirect emissions from the generation of purchased electricity, steam, heating and cooling for use by the given company.

Scope 3 emissions are all other indirect emissions given off elsewhere in the company's value chain. Examples including emissions generated when delivering a product to a customer, emissions generated by parts suppliers, and emissions generated by energy consumption when the company's product is in use for the customer.

Essentially, customers wishing to reduce their Scope 1 and 2 emissions cascade this demand down to other links (Scope 3 emissions) in the overall value chain. Scope 3 emissions can account for well over 90 percent of the total emissions generated in a given value chain.

Reducing Scope 1, 2 and 3 emissions across the value chain



¹Based on industry average from 'Best Practices in Scope 3 Greenhouse Gas Management' by Science Based Targets

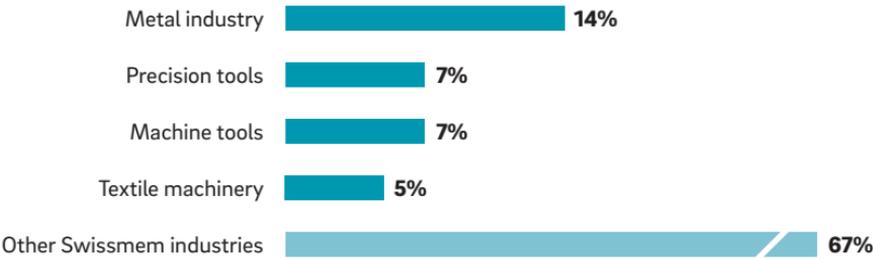
Source: Science Based Targets, Roland Berger

Breakdown of companies that participated in the survey

A total of 167 Swissmem member companies took part in the survey. A broad spread of industries participated, with the metalworking, precision tools and textile industries most strongly represented. 85% of companies that completed the survey are headquartered in Switzerland, with small companies accounting for the largest share: 31% of respondent firms have a global workforce of 50 people or less, while the largest companies surveyed have up to 2,500 people on their payroll worldwide. The industries served by survey participants range from healthcare and medical technology to automotive, electrical equipment, construction, aerospace and defense.

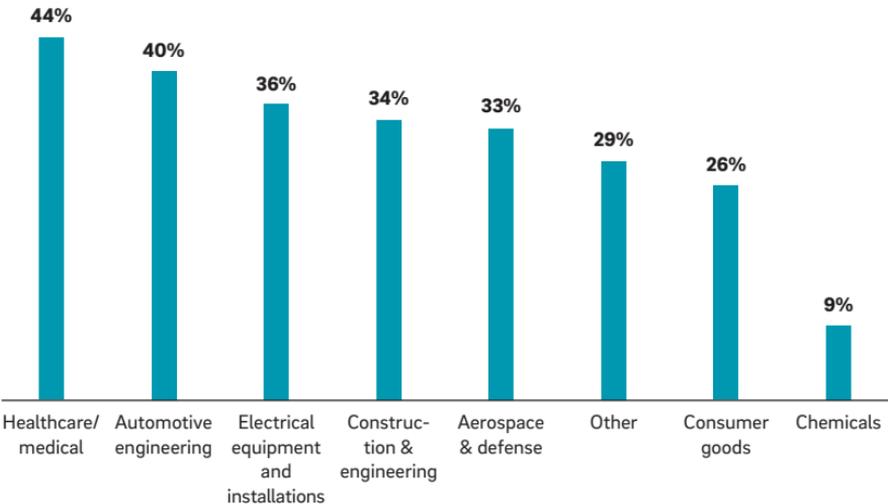
In which industry does your company operate?

[% of respondents]



In which industries do your customers operate?

[% of respondents]



Source: Survey with Swissmem member firms

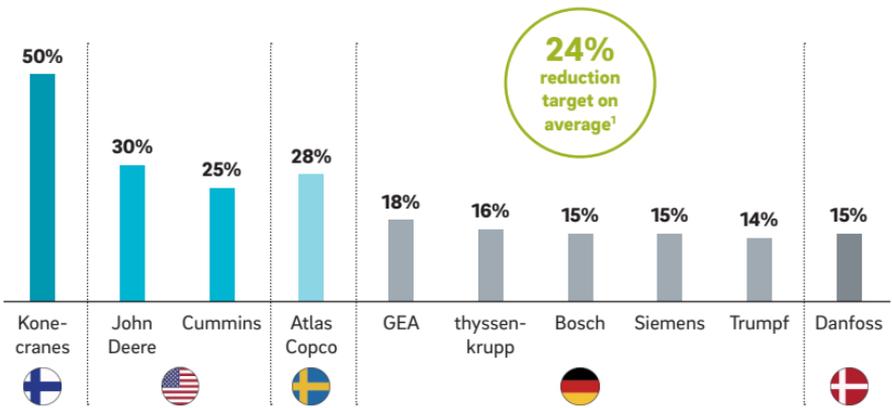
International comparison

Since the vast majority of respondent firms are Swiss-based and since no exhaustive international benchmark exercises have yet been performed, Roland Berger looked at a cross-section of European and US companies to gauge how Swiss players stand up in comparison.

As the chart shows, goals for reducing Scope 3 emissions are certainly ambitious, with companies across many industries aiming for 15% to 50% reductions by 2030.

Benchmarked companies outside Switzerland

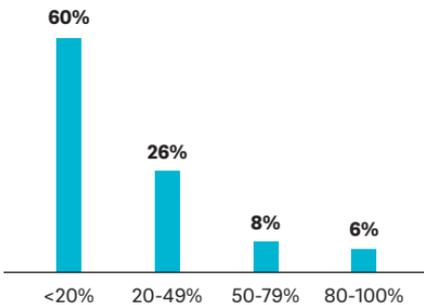
[% of reduction by 2030]



Swissmem member firms surveyed

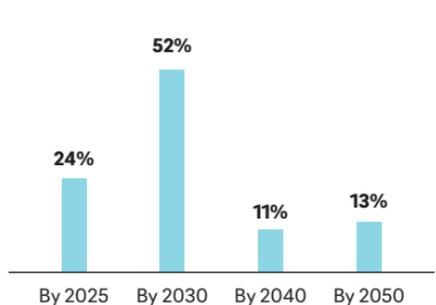
Targets set for Scope 3 reduction

[% of respondents]



Timeline to achieve targets

[% of respondents]



Swiss companies are evidently setting similarly aggressive targets, with 60% of respondents aiming to cut Scope 3 emissions by up to 20% and over half setting 2030 as their deadline.

¹ Simple arithmetic average across benchmarked companies shown – no industry

Source: Company websites, Roland Berger

Key drivers of efforts to reduce Scope 3 emissions

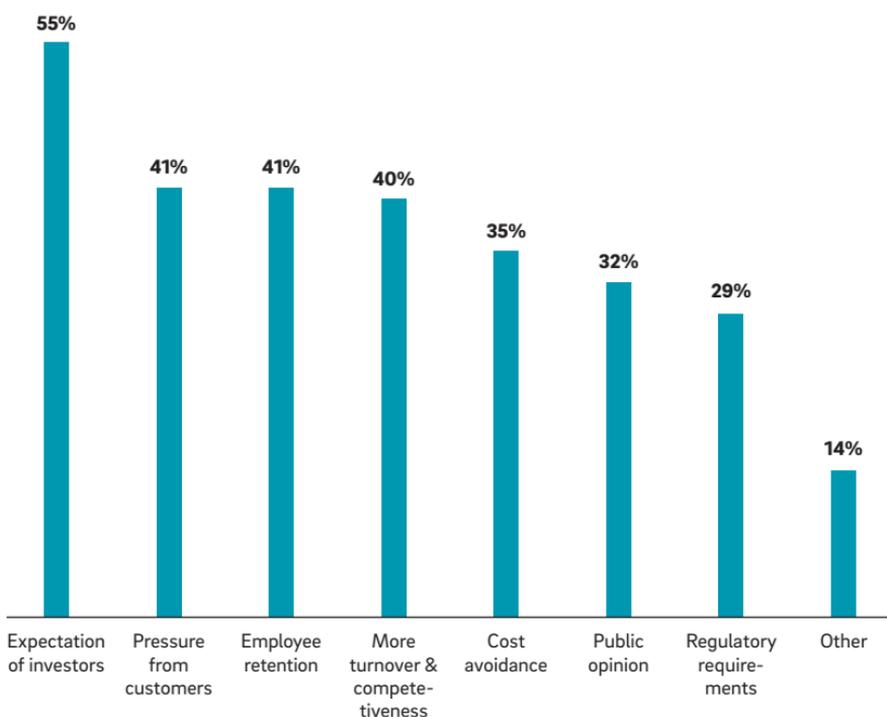
More than half of the respondent companies (55%) point to the expectations of investors as the main source of pressure on them to reduce Scope 3 emissions. Customers are pushing in the same direction. Moreover, with most competitors already taking action and employees likewise increasingly sensitive to this issue, many companies understand that they have no choice but to develop Scope 3 reduction roadmaps of their own.

What motivates companies to cut their Scope 3 emissions?

Main drivers for Scope-3 emissions reduction

Question: Why is the reduction important for you?

[% of respondents]



The desire to make a virtue of this necessity can be seen as a derivative driver: Being forced to satisfy investors, customers, employees and public opinion by resolutely reducing Scope 3 emissions gives companies a chance to set themselves apart with a positive USP and attractive employer branding.

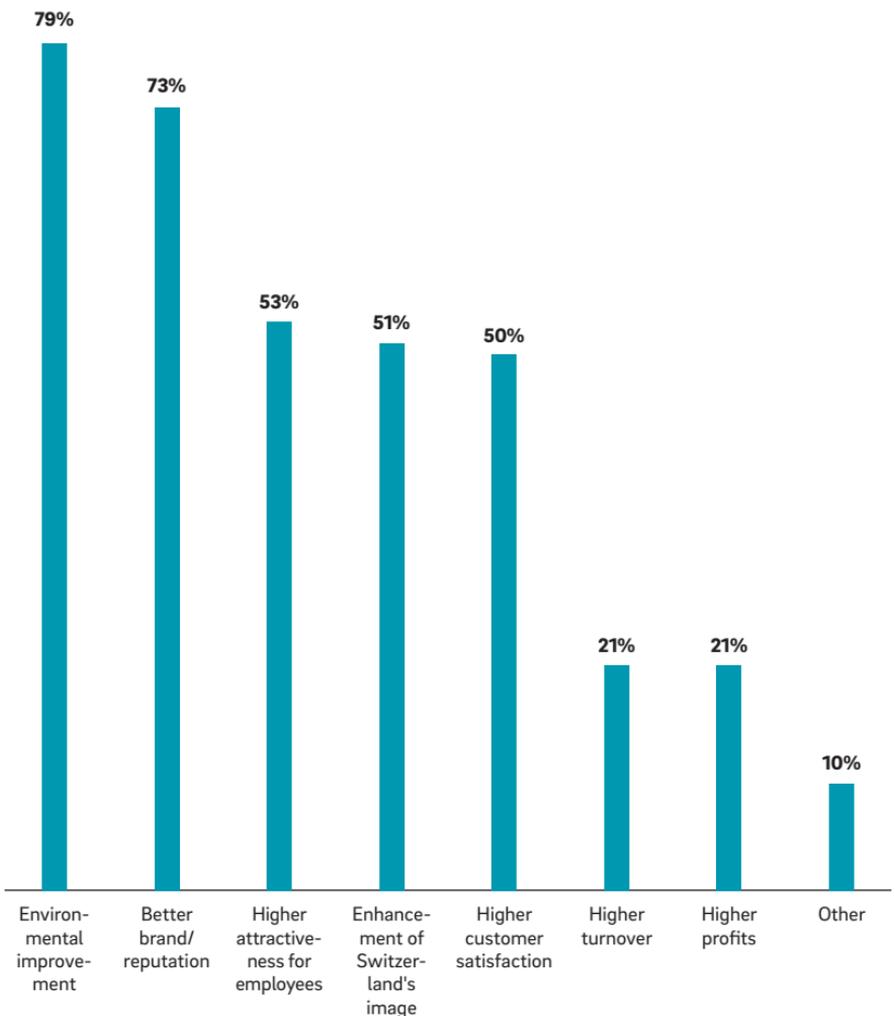
Source: Survey with Swissmem member firms

Survey participants expect Scope 3 reduction to positively affect the environment and their brand

Reducing Scope 3 emissions will obviously benefit the environment and help to mitigate climate change. Beyond this impact, companies in our survey also anticipate a boost for their brand and reputation, a strong selling point on the recruiting market and gains in customer satisfaction. Just over one fifth of participants expect to see an upside impact on turnover and profits as well.

What impacts do you expect from Scope 3 reduction?

[% of respondents]



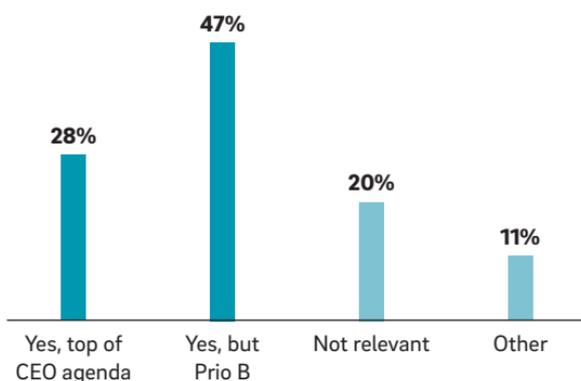
Source: Survey with Swissmem member firms

Obstacles to effective implementation (1 of 3)

Given such widespread acknowledgment of the need and compulsion to reduce Scope 3 emissions, the fact that nearly half of respondent companies see this vital issue as only their second priority at best perhaps reflects a surprising lack of ambition.

Priority given to reducing Scope 3 emissions by survey participants

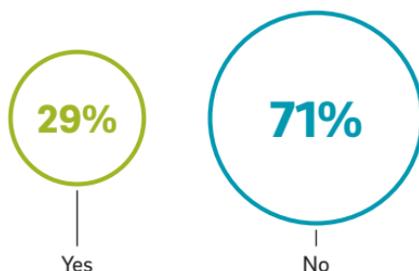
Question: Is Scope 3 reduction a priority for you?
[% of respondents]



Another perceived obstacle is that more than two thirds of respondents (71%) see no clearly defined KPIs with which to baseline Scope 3 emissions in the first place.

How do you reduce what you cannot measure?

Do you have clearly defined KPIs with which to measure Scope 3 emissions?
[% of respondents]

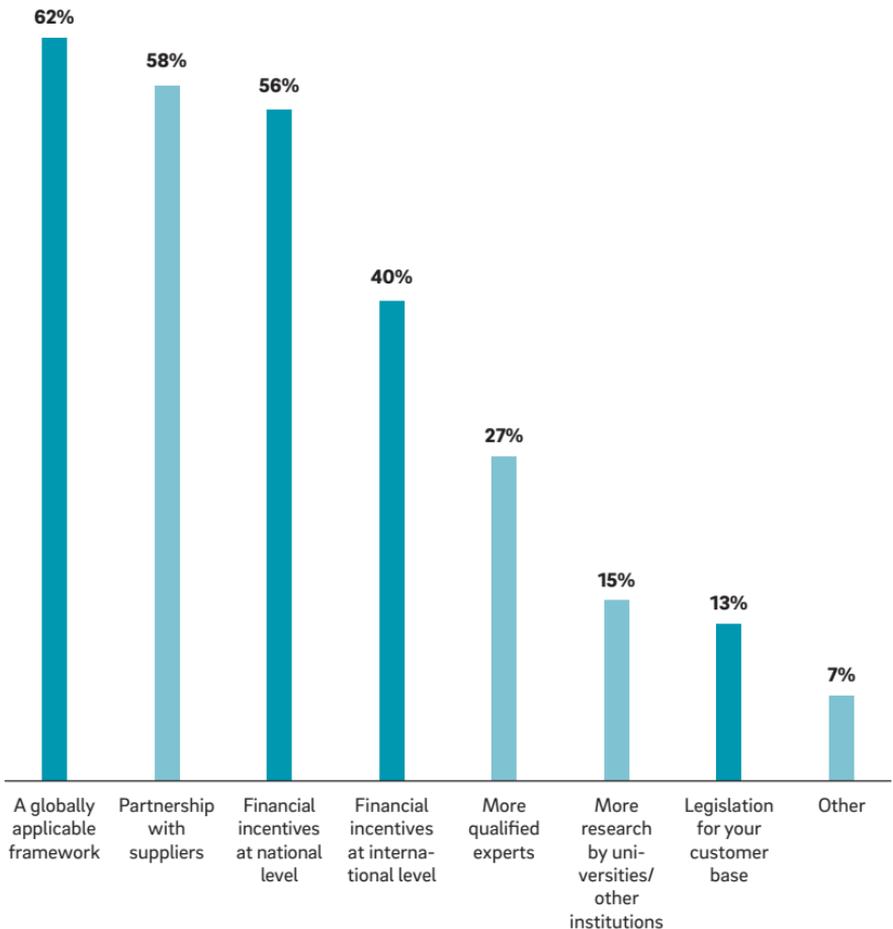


Obstacles to effective implementation (2 of 3)

In the absence of existing benchmarks either for individual segments or whole industries, let alone countries, respondents are painfully aware of the need for a coherent methodology for capturing data. Yet such a methodology itself presupposes a coordinated central framework within which companies can partner with competitors, suppliers and, where appropriate, companies from other sectors to map out measurable, realizable and comparable targets. Conducive legislative frameworks are another issue that must be addressed.

Perceived prerequisites if comparable reduction targets are to be set

Question: What are the prerequisites to achieve your targets?
[% of respondents]



Source: Survey with Swissmem member firms

Obstacles to effective implementation (3 of 3)

Three charts illustrate the "chicken and egg" problem that the majority of survey participants face on the road to net zero:

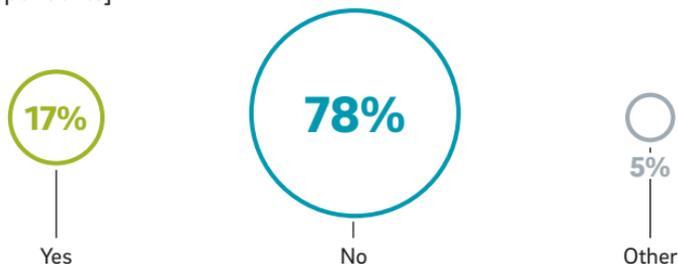
Have you defined a methodology to capture data?

[% of respondents]



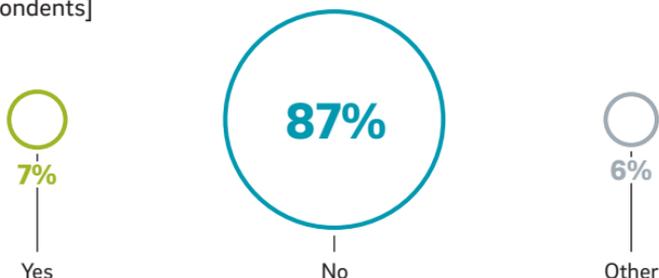
Do you conduct regular independent (third-party) emission audits?

[% of respondents]



Have you made specific SBTi commitments with a clear timeline to net zero?

[% of respondents]



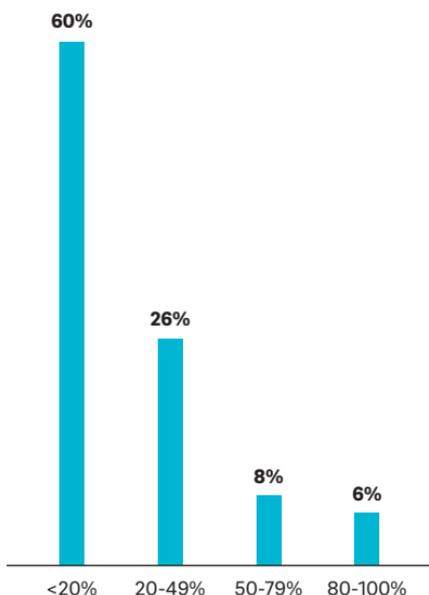
Concrete steps toward net zero are urgently needed, but cannot be plotted along a timeline if there is neither an accepted data capture methodology nor the ability (the will?) to audit performance in reducing emissions.

Good intentions and solid reporting structures

Despite the very real problems outlined above, 60% of the companies surveyed do already have reporting systems in place. And despite the lack of metrics and detailed roadmaps, the majority also want to slash 20% off Scope 3 emissions by 2030.

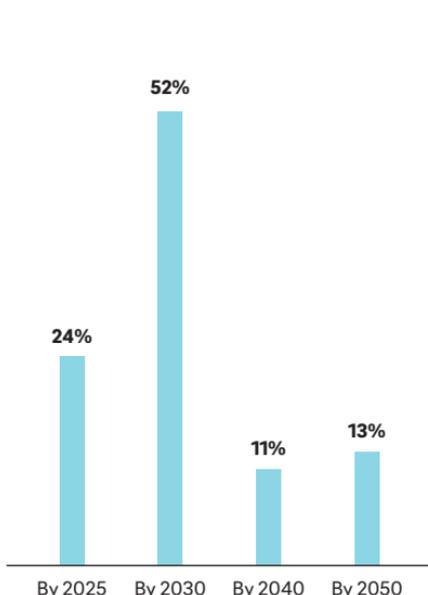
By how much do you want to reduce Scope 3 emissions?

[% of respondents]



By when do you want to do this?

[% of respondents]



Do you already have an appropriate reporting system in place?

[% of respondents]



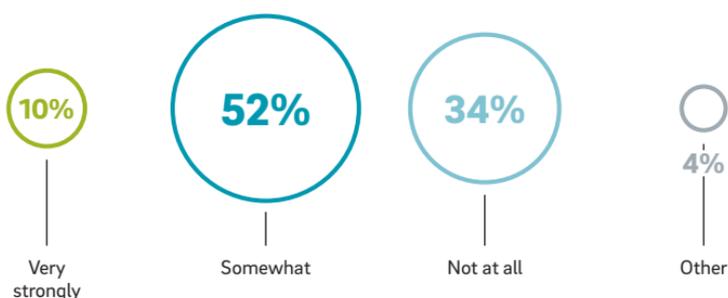
Source: Survey with Swissmem member firms

Moderate customer push effect expected over the next 3-5 years

The survey participants indicate that customers are on board at least to some degree with the need to reduce Scope 3 emissions. In the years ahead, they mainly expect to see improvements through more efficient machinery and less waste in the production process.

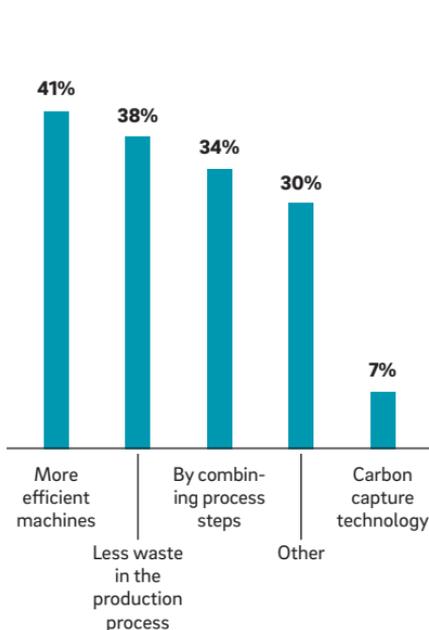
How strongly are customers pushing to support Scope 1 & 2 reduction?

[% of respondents]



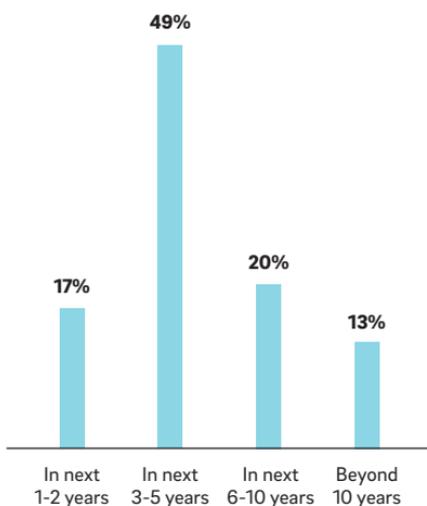
What main advances do they expect to see ...

[% of respondents]



... and over what period?

[% of respondents]

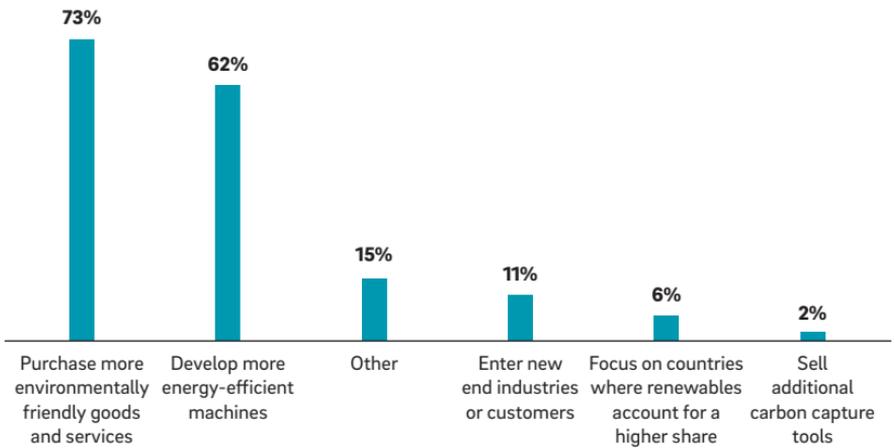


Source: Survey with Swissmem member firms

Concrete action needs more innovation and skill development

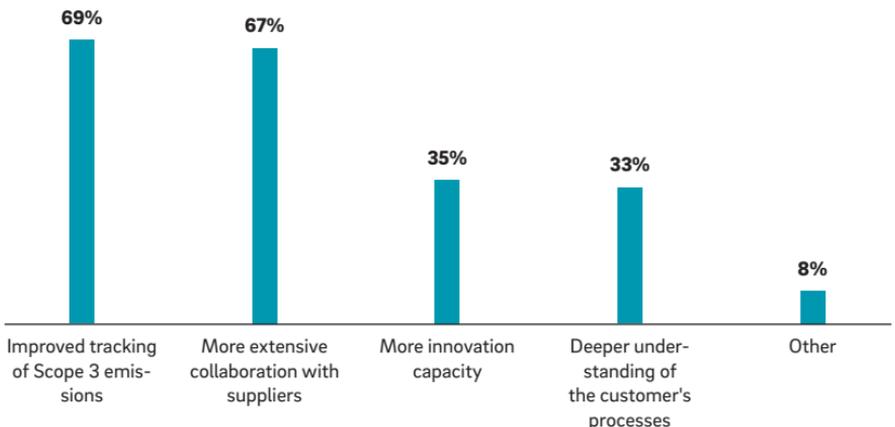
Companies that took part in the survey saw two main ways to reduce Scope 3 emissions: by purchasing more environmentally friendly goods and services; and by developing more energy-efficient machines.

What specific steps will help you reduce Scope 3 emissions? [% of respondents]



To achieve these goals, respondents first and foremost saw the need to improve their ability to track Scope 3 emissions and to deepen collaboration with their suppliers.

In what areas do you plan/need to develop your capabilities? [% of respondents]



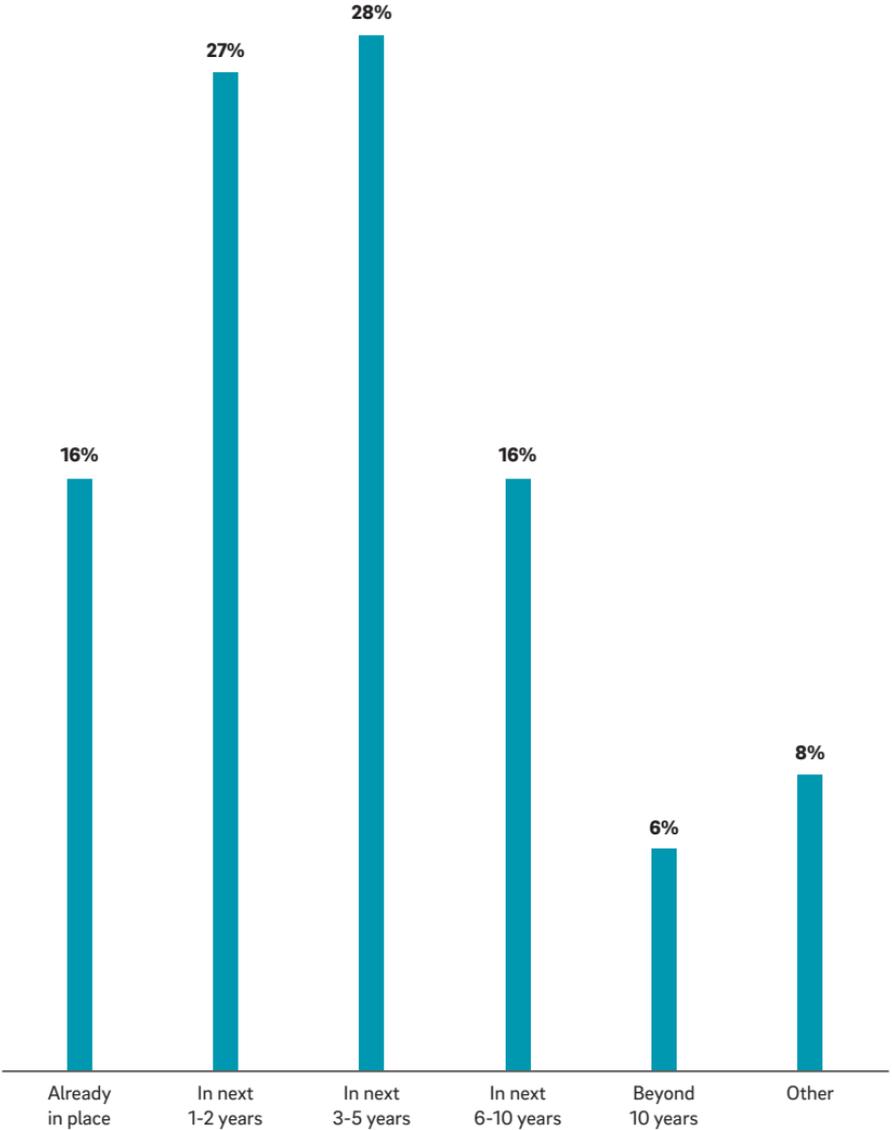
Source: Survey with Swissmem member firms

Timeline for action

While 16% of respondent companies already have measures in place to reduce Scope 3 emissions and a handful (6%) have even laid decadal plans, the majority are looking to go ahead with implementation over the next 1 to 5 years. Some are already targeting key milestones such as "a 20% reduction by 2027".

When do you plan to implement targeted Scope 3 reductions?

[% of respondents]



Source: Survey with Swissmem member firms

Conclusions and key takeaways



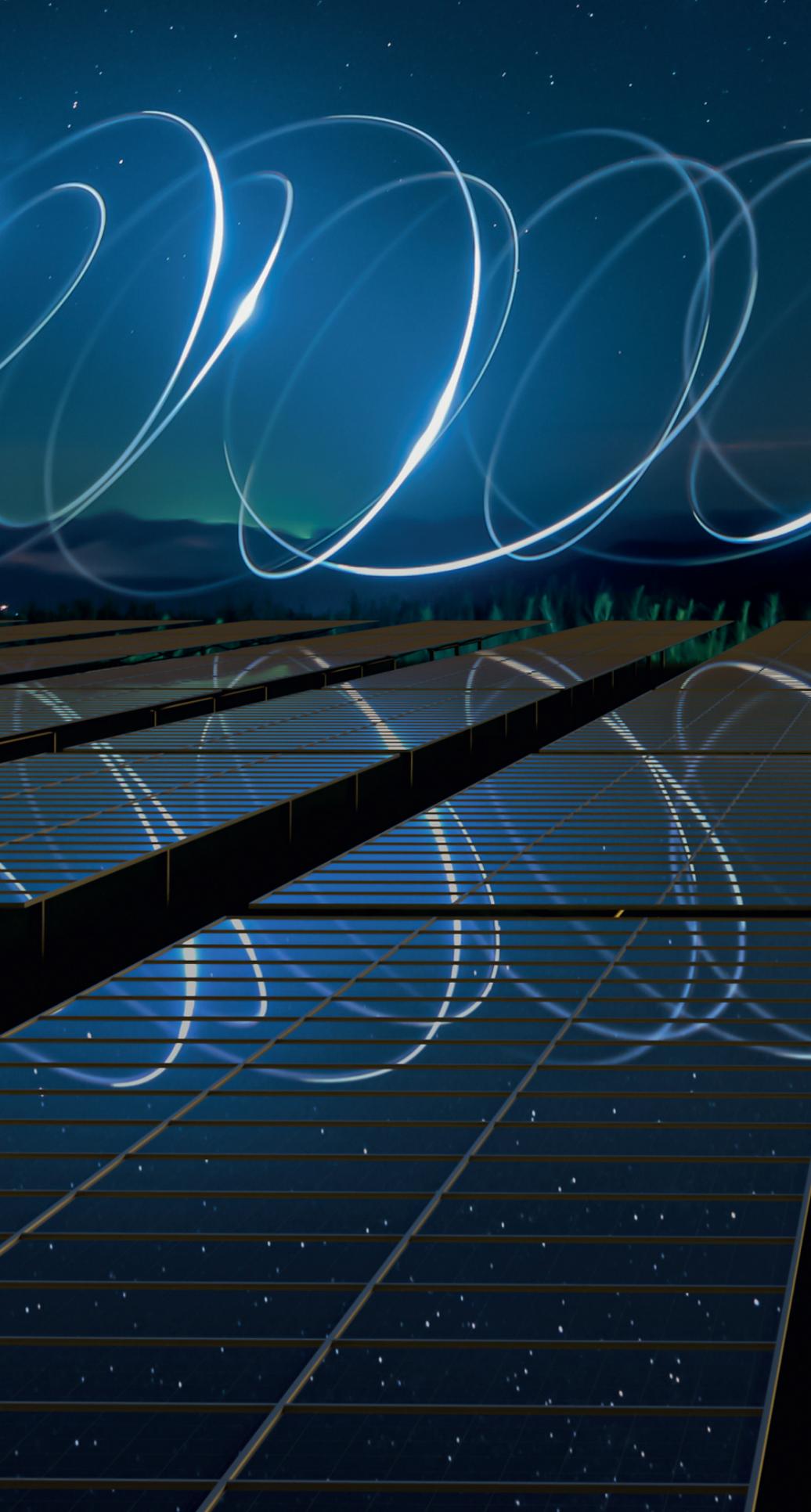
The survey clearly shows how many companies of all shapes and sizes and across a broad spread of industries have, at least in theory, grasped the importance of tackling the reduction of Scope 3 emissions. Building on this awareness, they are keen to position themselves as front-runners in international competition – partly in order to meet customer expectations, but also in response to pressure from investors and to retain the services of valuable employees.



Yet the survey also highlights the difficulties involved in acting on this awareness in practice. Global frameworks must be established, and work is still needed to develop suitable measurement methods and key performance indicators. These will necessarily vary from industry to industry, as each line of work faces its own unique challenges. Similarly, collaboration with suppliers and customers will play a central role in shaping effective processes. Many industries will doubtless be happy to follow the example set by automotive engineering, where OEMs, driven by the demands of investors and stakeholders, have formed an association to harmonize requirements and drive progress from within this industry.



Roland Berger and Swissmem welcome any questions and suggestions you may have on this vital issue and are happy to place their expertise, experience and insights at your disposal.



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