

TREND REPORT - SUSTAINABILITY IS TRANSFORMING BUSINESS

In business, change is in the air. It's more of a gathering storm than a gentle breeze, and if businesses don't embrace the new economy there's a good chance they'll be swept away.



"GEN Y IS CONSIDERED TO BE THE MOST ENVIRONMENTALLY AND SOCIALLY CONCERNED GENERATION YET, AND SET TO HAVE A HUGE IMPACT ON THE MARKETPLACE OF TOMORROW".



5 TAKEAWAYS

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Millennials have big ambitions for business and are showing a marked tendency to avoid buying from or working for unethical companies, in favour of more ethical alternatives.

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Future market opportunities are driving sustainable business with a \$13.5 trillion market opportunity for a low carbon energy sector.

3

Innovations are leading the charge with four technologies emerging as front-runners in a low carbon economy: LEDs, solar PV, onshore wind and electric and hybrid vehicles.

4

The new economy is a low carbon economy and the U.S. is a growing market for NZ exports. As the U.S. pulls back on its climate change commitments NZ businesses can lead the way and then sell climate change solutions into the U.S. market when it re-engages its commitments.

5

Change or die. Sustainable business models are here to stay and breakthrough models include being: people focussed, lean, integrated and circular. Businesses need to adapt a 'moonshoot' mentality or could be left behind.

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The growing power of Millennials, climate change, and the extraordinarily rapid rise of new innovations are disrupting markets around the world. Change as usual is no longer an option.

What are the key drivers and where do the opportunities lie for New Zealand businesses?



The new economy is a low carbon economy

More than ever before, companies understand that creating a low carbon strategy is good for their bottom line. New Zealand has a natural advantage through our energy profile and New Zealand businesses could lead this economic opportunity. Not responding to climate change will make businesses increasingly hard to invest in or purchase from.

Earlier this year the Royal Society of New Zealand made clear the need to take immediate action on climate change. It urged businesses to act and said there were good opportunities to shift to a thriving low carbon economy here in New Zealand. Many businesses are already ahead of the game across sectors including energy, transport, buildings, agriculture and forestry. Even the threat of countries like the U.S. pulling back on their climate change commitments means an opportunity for NZ business to lead the way - then sell solutions to the U.S. market when they re-engage in the issues later on.

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Future market opportunities are driving sustainable business

Given the tremendous global need for climate solutions, the size of the opportunity is enormous. Research shows there's a \$13.5 trillion market opportunity for a low carbon energy sector alone.

New Zealand businesses understand the competitive benefits from acting sustainably, according to a survey by The University of Auckland Business School, published in October 2016. They see sustainability as a driver of product and process innovation. And this is being led right from the top – from the chief executive and the board.



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Millennials have big ambitions for business

Research by Colmar Brunton indicates how heightened environmental and social concern is driving buyers' choices, in particular Millennials (Generation Y). They are showing a marked tendency to avoid buying from or working for high polluting or 'unethical' companies in favour of more ethical alternatives. Anything from a half to three quarters of those surveyed said sustainability influences their buying choices.

The report states: "Gen Y is considered to be the most environmentally and socially concerned generation yet, and set to have a huge impact on the marketplace of tomorrow".



Change or die: new business models are here to stay

For the past decade or so, emphasis in sustainability circles has been on proving the business case for action. But now the debate has moved to a new level. Focus is shifting to new types of business models that can create financial value. A report by UK think tank Volans identifies four characteristics of 'breakthrough' business models: they should be social (people-focused as well as communications-focused), lean (mega efficient), integrated (across all systems) and circular (minimising and re-using 'waste'). It's the same set of characteristic that we see here in our work with Kiwi companies.

According to report co-author John Elkington, "Incremental approaches are no longer sufficient To get to zero poverty and zero hunger in less than 15 years, we have to think exponential. We need to adopt what Silicon Valley people would call a 'moonshot' level of ambition."

In New Zealand many businesses are already adopting new business models and thriving as a result. Mike and Sharon Barton established Taupo Beef (winner of the 2015 NZI Greatest Contribution to a Sustainable NZ Award) to see if people would pay a premium for beef helping to preserve Lake Taupo. They believe shoppers can be encouraged to make the right buying choices to support the changes needed. The result, demand has consistently exceeded supply.

Freedom Farms doesn't have farmers and doesn't produce its own food. Instead it specialises in marketing and convincing consumers to pay a bit extra for its ethical products. And we love it

Meanwhile in the transport sector, car-sharing scheme such as Cityhop, YourDrive and My Car Your Rental make it easy to use a car when you need one, which encourages people to drive less and reduce car ownership.



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Innovations leading the charge

Four technologies are clear front-runners in the emerging low carbon economy, according to a report by Goldman Sachs. They are: LEDs, solar PV, onshore wind, and electric and hybrid vehicles. The four combine scale and growth and are massively growing their market share.

In addition, rapidly advancing battery technology will be a key linchpin for the new economy. In October 2016 Vector installed Tesla's new grid-scale battery storage system to power households and businesses in Glen Innes in Auckland. The Tesla Powerpack requires less energy from traditional

sources, saving users money as well as reducing carbon emissions. With increased efficiency, your electric vehicle could soon be powering your home.

Next on the table is the growing social-economic divide. Not addressing this will create major hurdles for business. We need healthy stable communities to enable businesses to grow and flourish. We are seeing this played out in the UK – and now in the U.S. This has to be the next big challenge for business globally... a trend in the making.

These trends are set to transform the shape of business over the next decade. The speed of change and innovations is breathtaking. So if you

want your business to thrive, now is the time to look at innovating your business model, integrating sustainability throughout your business, and listening to youngsters.

If you need inspiration, check out the stories behind the finalists in the 2016 NZI Sustainable Business Network Awards. These businesses are already getting ahead of the game. Don't get left behind!

Rachel Brown

CEO, Sustainable Business Network

