



ESG planning: holding the key to sustainable branding

30 August 2023

EY Climate Change and Sustainability Services

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Building a better working world



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Why ESG

What do we mean by ESG?

Environmental

How a company impacts, and is impacted by, the environment

- ▶ Planetary footprint
- ▶ Resilience to climate change
- ▶ Nature and biodiversity
- ▶ Greenhouse Gas (GHG) emissions
- ▶ Renewable energy
- ▶ Land use
- ▶ Resource consumption
- ▶ Pollution and waste

Social

A company's relationship and influence on society

- ▶ Prosperity and resilience
- ▶ Diversity and inclusion
- ▶ Human rights
- ▶ Indigenous rights
- ▶ Employee health, safety and wellbeing
- ▶ Consumer health
- ▶ Just transition
- ▶ Employee benefits and labor standards
- ▶ Stakeholder relationships

Governance

The fundamental principles governing a responsible, ethical and transparent business model

- ▶ Ethics and business conduct
- ▶ Culture
- ▶ Tax
- ▶ Transparency
- ▶ Legal compliance
- ▶ Accountability
- ▶ Management systems
- ▶ Board governance
- ▶ Remuneration

Your suppliers

You

Your customers

Leading ESG integration applies across the value chain

ESG has evolved to become essential to business strategy



1990s

Rise of multilateralism and the global sustainable development agenda

01

2000s

Suppressed by global shocks and the global financial crisis

02

Today

ESG is essential to business, central to strategy, a fiduciary duty and a driver of global capital.

03

The different consumer types are becoming more alike in size, but the biggest group continues to focus on affordability

Affordability first

Financially concerned

Saving, not spending

Price comes before planet

Planet first

More mindful consumption

Favoring local products

Expecting transparency

Experience first

Financially & socially optimistic

Living for the moment

Looking for personal benefit

Health first

Focused on health and safety

Less concerned to actually get sick

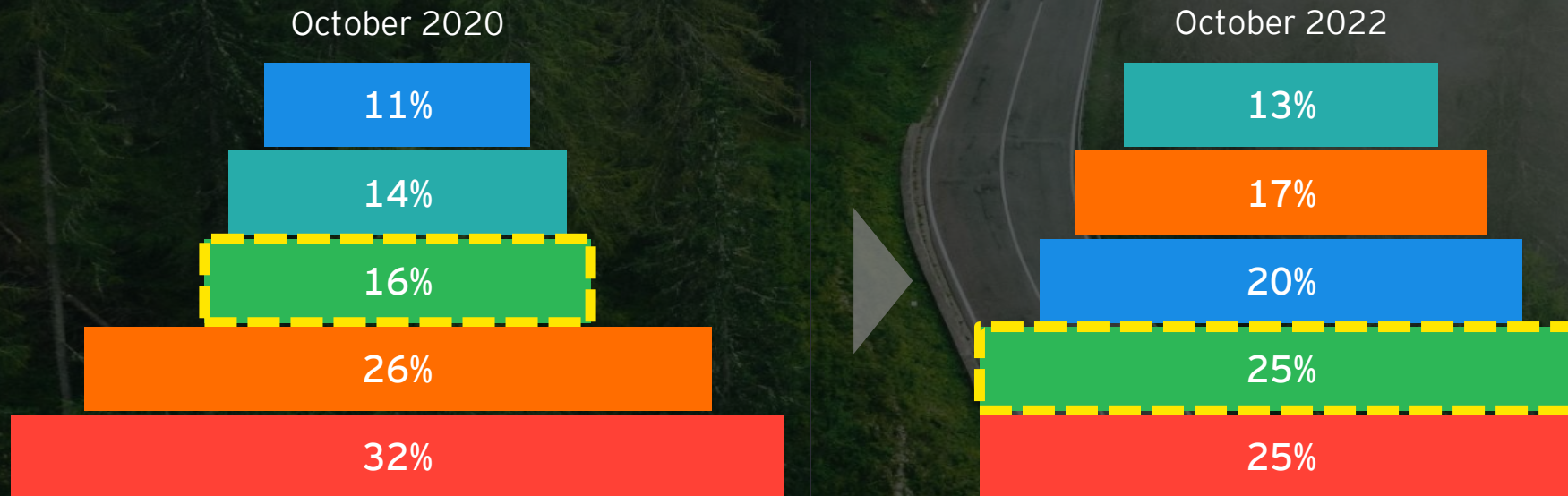
(Price) conscious consumption

Society first

Owning fewer, better things

Believing together is better

Expecting long-term life changes



Source: EY Knowledge analysis, EY Future Consumer Index (2020 covered 20 countries globally, 2022 27 countries)

ESG is increasingly central to stakeholder expectations

Government and regulators

- ▶ Increasing policy and regulation
- ▶ Regulatory encouragement to adopt nonfinancial reporting frameworks
- ▶ Demand for sound governance
- ▶ COP26 and other global agreements

Debt and equity

- ▶ Capital markets are transforming toward values-based investments
- ▶ Investors de-risking their investments
- ▶ Rise in responsible investment
- ▶ Increasing benefits in ESG-linked debt

Employees

- ▶ Sustainability increasingly core to workforce culture
- ▶ Growing millennial workforce with strong values

Civil society and consumers

- ▶ Heightened focus on the environmental and social impact of businesses and corporations
- ▶ Consumers aligning with brands with strong sustainability performance
- ▶ Community a part of the conversation through social media and activism

Suppliers and customers

- ▶ Increasing supply chain policy and regulation for ethical and responsible practices, e.g., Modern Slavery Act
- ▶ Customers demanding value chain sustainability and transparency, e.g., Scope 3 emissions

Future generations

- ▶ Upholding the principle of intergenerational equity and protecting the planet for future generations
- ▶ Notable increase in children protesting for environmental causes

The business benefits of ESG integration

- ▶ Risk reduction

- ▶ Efficiency and optimization

- ▶ Debt and equity benefits

- ▶ Customer preference

- ▶ Talent and productivity

- ▶ Competitive advantage



Case studies

Case study: Patagonia

- Ranked **first for reputation** in 2023 poll amongst top US-recognized companies¹

Circularity and community

Their website not only promotes responsibility in their own products, but also provides a platform for re-use items, locating nearby environmental groups, and informative articles.

Anti-consumerism

Patagonia launched a 2011 Black Friday ad that encouraged people not to buy Patagonia clothing or anything else they don't need². Despite the plea, Patagonia sales did not falter and the retail powerhouse has gone on to donate 100% of Black Friday sales since 2016.



Consumer confidence of good decision-making
Brand exposure and reputation-building with environmental & social groups of various sectors



Patagonia is an *investment* – an **innovative image, durable image** justifies **higher price points**

¹ Axios, *The 2023 Axios Harris Poll 100 reputation rankings*, 2023.

² Jamie Drawbridge, *Going Off Course: A Case Study on the Marketing Strategy of Patagonia*, 2018.

Consumer's appetite



Although practicality and quality remains the top concerns for consumers in Hong Kong, **71%** of consumers are aware of Sustainable Development Goals¹.

Hong Kong consumers' top considerations for corporate sustainability¹

Production-related pollution

Eco-friendly materials

Recyclable raw materials

In China Mainland, **42.3%** of consumers have developed strong awareness for sustainable consumption².

49.03% hope low-carbon consumption penetrates various areas of life³

42.66% hope low-carbon consumption and lifestyle becomes a consensus³

41.88% hope to see more low-carbon products and service choices available³

¹ Second-year Survey on Consumer Perceptions of Sustainable Fashion in Hong Kong and Macau, UNIQLO and Hong Kong Polytechnic University's School of Fashion and Textile, 2023.

² 2023年中国消费者洞察白皮书, 艾瑞咨询, 2023.

³ 2022中国可持续消费报告, 商道咨询, 2022.

Case study: Vitasoy

- Ranked 27th in Corporate Knights' 2023 **Global 100 Most Sustainable Corporations**¹

Plant-based origins

Vitasoy's 2022 "Planting Goodness Everyday" campaign leverages on the company's long-standing heritage with shifting consumer preferences for plant-based alternatives. HK's operating profit grew 11% in FY22-23 from the previous year.²

Aligning people and planet health

Vitasoy emphasizes both the benefits of their products from a nutritional and environmental perspective, using plant resources less carbon-intensive than its animal-based counterparts

Recycling/Upcycling network

Vitasoy provides hundreds of carton and PET bottle collection points made of upcycled cartons across Hong Kong to increase access to recycling, easing transitional behaviour of waste disposal.



Reliable and relevant product impression

New campaign platform to expand product line and ensure business continuity



Ensure consistent demand by **increasing consumer confidence** of making beneficial purchases



Brand exposure and showcase of **proactive integration of sustainability**

¹ Corporate Knights, 2023 Global 100 Ranking Table, 2023.

² Vitasoy International Holdings Ltd, Vitasoy Announces its Business Results for FY2022/2023, 2023.

Hong Kong-based SMEs/startups with a focus on sustainability branding

Slowood

- ▶ Zero-waste store
- ▶ Carbon-neutral delivery with EcoCart
- ▶ Stocks food & lifestyle products from eco-friendly brands

GreenPrice

- ▶ Retail chain for short-dated groceries and cosmetics
- ▶ Sells food at discounted prices while preventing food waste

Green Common

- ▶ Plant-based retail and dining outlet
- ▶ F&B arm of social venture Green Monday
- ▶ Partners with institutions to promote plant-based offerings in menus

Ampd Energy

- ▶ All-electric battery energy storage system to replace diesel generators
- ▶ Includes an evaluation and proposal process for smooth deployment

Ecobricks

- ▶ Concrete brick producer from upcycled type 1-7 plastic, replacing natural aggregate
- ▶ Maintains global industry standards

Lane Eight

- ▶ Sustainable footwear brand
- ▶ Partners with material developers to create eco-friendly, fully vegan products



ESG planning

What does it take to lead?

Maturity

Leading

Sustainable development central to strategy and narrative and embedded across the value chain.



Businesses create new markets and work across the value chain to regenerate the environment and create positive social impact as a core outcome of doing business.

Advanced

Integrate ESG into core business strategy and operations.



Businesses anchor their strategy to a clear and compelling purpose, with a focus on delivering long-term value across stakeholders with some value chain integration.

Established

Meet stakeholder expectations with recognized initiatives and products.



Businesses design and implement ESG strategies to meet the expectations of key stakeholders.

Developing

Adopt a policy-based, compliance approach as a cost of doing business.



Businesses integrate minimal ESG requirements in order to meet regulatory demands.

Basic

Limited understanding of ESG risks, impacts and no integration of ESG into strategy.



Businesses may continue to leak value through harmful practices and limited mitigation, with no alignment to global or societal causes.

Key questions to consider

How does the **purpose and strategy of your business** align with planetary limits and the needs of society?

Has your organization identified and assessed the **environmental and social risks and opportunities** across its **business lifecycle and value chain**?

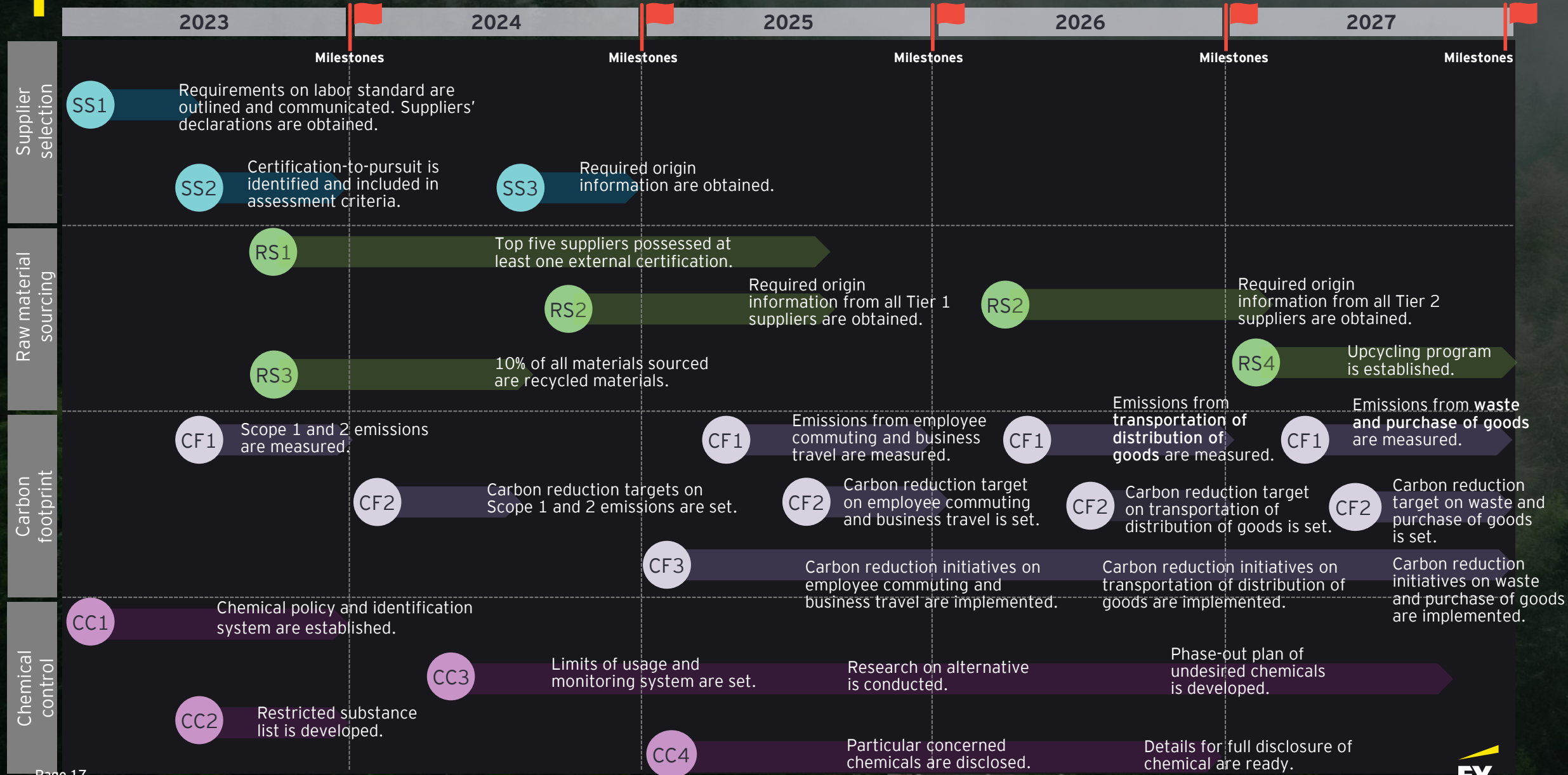
Are you making **business decisions and allocating capital** based on financial and **nonfinancial, social and environmental criteria**?

Do you have the **governance structure and culture** required to generate financial and nonfinancial value as an organization?

Example of roadmap in ESG and sustainability for consumer goods




Example of a five-year roadmap for a clothing brand



Tips for serving the “Planet first” consumer

- ▶ Establish **traceability** along the value chain and **transparently** report impact to encourage consumer loyalty.
- ▶ Invest in developing **sustainable and recyclable solutions** that reduce packaging use and in product development, including platforms that support reselling.
- ▶ Don't lose sight of the fact that these consumers still want to keep up with fashions and other trends and **will pay more for sustainability**



Thank you

If you have any questions, do not hesitate to let us know!

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APAC no. 03018127
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