

## 8 Supplier collaboration to solve for sustainability

**The importance of sustainability continues to increase for grocers, despite the current dip in consumer demand. While the investments required to reduce Scope 1 and 2 emissions are substantial, the necessary actions are clear. In contrast, Scope 3 requires further understanding.**

Regardless of the current dip in consumer demand for sustainable products, the decarbonization of grocery is picking up speed, driven by the European Green Deal, the expectations of investors, and a shift to green debt financing. The number of retailers with operations in Europe that have set science-based targets for decarbonization increased from 56 in 2021 to 110 in 2022. Among grocery retailers, this number increased from 22 in 2021 to 36 in 2022.<sup>12</sup>

Retailers have a clear understanding of the initiatives that are required to address Scope 1 and 2 emissions. More than 60 percent of greenhouse-gas emissions in Scope 1 and 2 can be abated in a way that saves

cost and yields a positive net present value (NPV) – for example, investing in more energy-efficient freezers. However, these initiatives require substantial capital expenditures that could total €25 billion to €65 billion by 2030 across the European grocery retail industry.<sup>13</sup>

Since Scope 1 and 2 emissions represent only 7 percent of all emissions associated with retail (Exhibit 12), engaging suppliers and consumers to reduce Scope

3 emissions will be crucial to reach net zero. Meat and dairy production should take priority, as these categories represent half of all Scope 3 grocery emissions.<sup>14</sup>

To move the needle on Scope 3, retailers are starting to establish joint initiatives with their suppliers. For example, Carrefour has engaged suppliers to commit to reducing their CO<sub>2</sub> emissions by 20 megatons by 2030. Tesco has partnered with a bank to offer preferential

borrowing rates to suppliers that disclose carbon data. Programs for consumer engagement are also emerging. For example, Kesko has launched an app through which consumers can set and monitor climate targets for their shopping baskets.

### DEFINITION

**Scope 1** – direct emissions generated by an organization

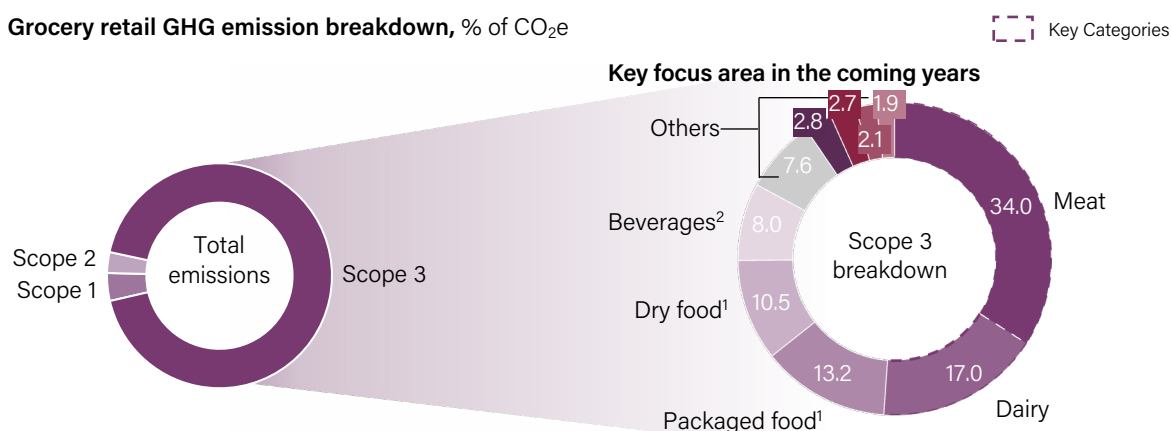
**Scope 2** – emissions generated by production of purchased energy

**Scope 3** – indirect emissions from up and down the value chain

Exhibit 12

**The equation for Scope 1 and 2 is directionally solved and accounts for a minor share of emissions, while Scope 3 remains a key issue.**

Grocery retail GHG emission breakdown, % of CO<sub>2</sub>e



<sup>1</sup> Processed meat, processed seafood and others (pizza, ready meals, soups, etc.).

<sup>2</sup> Both alcoholic and soft beverages.

Source: Euromonitor; Poore & Nemecek

<sup>12</sup> "Companies taking action," Science Based Targets, accessed April 5, 2023.

<sup>13</sup> Transforming the EU retail & wholesale sector, McKinsey, October 2022.

<sup>14</sup> Bartosz Jesse, Alessa Perotti, and Daniel Roos, "Decarbonizing grocery," McKinsey, July 22, 2022.