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What impact do sustainability criteria have on business models?

When evaluating products and solutions, sustainability criteria are becoming increasingly important for both customers and investors. On the one hand, this relates to the immediate environmental and social conditions of production itself and the recyclability of created products. On the other, it's also true that the design of the supply chain, including its geographical distribution, also has an influence on the consumer's judgment. In addition, national and international compliance requirements are creating an increasingly demanding framework with regards to sustainability.

The key takeaway is that the design parameters of many business models can no longer be maintained in their current form. Higher risk and reputation costs, investments in modified product design and adapted supply chains, as well as expenses for monitoring and managing suppliers, means that established business models can no longer be continued without substantial changes.

However, this development also has a positive side. New services can be created, for example, around the circularity or collaborative use of products. In addition, innovative processes and production methods can become more attractive. It is crucial to evaluate the business model portfolio holistically at an early stage and to develop transformation scenarios to enable targeted adaptation to new framework conditions.

How can investment security be achieved in view of the openness of technology?

Early phases of technological upheaval are phases of extreme uncertainty. The rules of the game, the distribution of power and growth potential are not yet set in stone; the legal framework is constantly changing and it is still unclear which markets will be affected and to what extent. A major factor in this 'strategic fog' is the openness of technology. In principle, new types of problems can be solved by different technologies. But it's to predict which ones will ultimately prevail at this moment in time.

The sustainable transformation of the economy is also only just beginning. Which is why the long-term implications of social and industrial projects such as energy transition or the replacement of combustion engines in road, sea and air transport are unclear. As yet, we don't know which energy types and distribution systems will prevail in which regions. Nor do we know which drive technologies and charging infrastructures will become established, and for which areas of application.

For the industry, all this uncertainty entails serious risks and burdens. These arise both from an early commitment to a technology standard, and from the complex and expensive parallel development of several technologies and business models. Solution approaches include sound scenario management and integration into ecosystems in which risks, tasks and knowledge are distributed. But at the same time, processes must be continuously improved to achieve a higher degree of efficiency, adaptability and scalability.

How does Industrial Sustainability influence EBIT?

The sustainable restructuring of industrial value chains is inevitably accompanied by extra burdens. However, it also offers significant opportunities to improve earnings. The first levers are efficiency improvements and cost savings. This is because the focus of sustainably oriented processes is on avoiding the waste of resources: energy, water and raw materials need to be used efficiently and the production of harmful waste products reduced.

It's important to take a perspective of the entire product life cycle here. If products are designed for effective and residue-free disposal right from the design phase, the cost of taking them back and recycling them can be reduced, or even allow new sources of revenue and raw materials to be unlocked.

Sustainable processes also contribute to the systematic reduction of risk costs. The industry is confronted with increasingly complex sets of regulations that significantly expand the scope of liability. These risks can be reduced by transparent and verifiable structures throughout the value chain that are in line with current and future compliance regulations.

In addition, it is worth considering the risks associated with products and manufacturing processes. For example, raw materials whose extraction and disposal have negative social and environmental impacts represent an obvious potential risk. Products manufactured in this way are increasingly subject to strict sanctions, including import bans.

In addition, the use of non-renewable energy sources can have a negative impact on our reputation. Factors like this are risks for all existing business models. A comprehensive consideration of risk scenarios and the early transformation of value creation therefore has a direct influence on future revenue strength, access to capital and company valuation.

Are radical innovations made possible by sustainability?

Sustainability efforts go hand in hand with innovative technologies and business models: ecological changes, political transformation agendas, and regulatory incentives and sanctions are creating new markets for industrial products and services. Buildings, infrastructures and factories, for example, need to be adapted to changing climatic conditions as well as circularity. The move away from fossil fuels is opening up access to sectors that were previously closed off and organized on an oligopolistic basis.

Customer requirements are also evolving and generating demand for products whose positive sustainability 'balance sheet' is becoming a key purchasing criterion. All these processes offer a wide range of new opportunities for industrial companies, if they succeed in identifying relevant trends, precisely defining their own value contribution, and effectively aligning the available R&D resources.

Does sustainability require a new strategy model?

When it comes to the formulation of strategies, addressing sustainability does not inevitably mean the re-evaluation of all values. Many companies have already undergone a realignment of mindset, methods and organization in recent years. Strategy processes are increasingly attuned to openness to future developments, as well as disruptive change, rapid, lateral decision-making, agility and resilience.

The sustainability perspective now adds further facets to these developments. The starting point is the consistent life cycle consideration of products and their impact, from raw material extraction to recycling. This means that phases in the life of a product the manufacturing company has not had direct access to in the past, now become relevant. The task is to map these out strategically and to analyze opportunities for exerting influence.

Within the company, this approach requires a much stronger linking of functional strategies. At the cross-company level, integration into new types of ecosystems becomes imperative: new forms of cooperation are needed to improve knowledge, customer access and resource utilization, and to make the company, as a whole, environmentally and socially sustainable.