The ROI Of Sustainability

A technology leader’s guide to where and how sustainability fits into your business strategy
Why Sustainability Is Important Now

The technology industry is in the sustainability spotlight for many reasons — not the least of which is that information and communications technology equipment alone is responsible for about 1.4% of total global carbon emissions. Environmental responsibility and sustainability impact the survival and growth of every organisation, especially since climate action is a critical business initiative. The good news for organisations is that the ROI of sustainability extends to more than just altruism and goodwill — it includes tangible monetary returns as well.

A growing number of organisations of all sizes are embracing corporate social responsibility as a core value across many sociological and political dimensions. Forrester surveys show that sustainability is at the top of everyone’s list of values. Although this initiative has always been a “nice-to-have” in the past, shareholders or the prioritisation of a company’s growth overrode it — “green” was always more about money than about the planet. A heightened sensitivity to climate change and the human race’s impact on it has now flipped that thinking around. Although the primary motivation for sustainability for every organisation is arguably its responsibility to the environment, business value encapsulates environmental responsibilities. Optimisation seeks the balance of environmental and fiscal motivations that makes sustainability viable to a business.
Business value extends to revenue growth from new opportunities, employee retention, attracting new investments, regulatory compliance, and the innovation that sustainability spawns. Sustainability-focused companies have seen better financial results relative to their peers. Sustainability has proven to be a necessity, not a luxury, and investors have doubled down on sustainability investments, even during the COVID-19 pandemic. Operational efficiency itself affects both bottom- and top-line growth. Internally, an innovative work culture and a general sense of having a positive effect on the planet motivates employees to find creative solutions around archaic processes and ways of working.

**Incremental profit:** Customers are choosing suppliers with strong sustainability credentials.

**A better employee experience:** Higher retention means lower costs.

**Reduced cost of capital:** Financiers are looking for sustainable investments.
Building A Use Case For Sustainability

Despite the clear list of benefits, technology leaders will need to obtain buy-in and budget from other decision-makers in their organisation. Creating a proper use case that details how to implement sustainability into your organisation’s technology and innovation strategy is a great place to start your sustainability journey.

We developed the Forrester technology sustainability framework (see Figure 1) as a guide for structured analysis of sustainability investments and opportunities by various industries. For business leaders and technology providers, this framework provides an integrated view of how thorough your sustainability strategies can be. And for customers of technology providers, this helps put the various sustainability initiatives into a holistic perspective to assess their comprehensiveness.

Figure 1

1. Procurement
   - Green energy
   - Sustainable water
   - Sustainable hardware

2. Operations
   - Data center energy and water
   - Networks and data
   - Carbon footprint mapping
   - Value chain
   - Carbon capture

3. Retirement
   - Circular economy
   - E-waste management

Measurement tools and processes
Communication and partner enablement
The most constructive opportunities in each of the main phases — procurement, operations, and retirement — will vary by industry and by the context in which the business operates. For example, investment in sustainable sourcing is a priority for large data center operators. The circular economy and its implications can be a priority for the consumer and packaged goods industry. Use the framework to start building your sustainable technology organisation.

The approach that an organisation should take depends on which steps in the framework make sense for each industry, vertical, and individual organisation priority. We’ve already seen various efforts across the three pillars of the framework: procurement, operations, and retirement.

**PROCUREMENT**
The procurement of energy, water, and sustainable raw materials is the first pillar of your sustainability journey. This phase is not only the easiest to implement but also among the most visible to your customers. With a good strategy, energy procurement can yield cost savings that you can pass on to customers and partners.

**OPERATIONS**
Optimising infrastructure and operations to be sustainable can be complex but also presents the most opportunity among initiatives that organisations undertake. These opportunities will vary significantly with each geography and industry. However, scale plays an important role in the changes you can make.

**RETIREMENT**
An effective circular economy strategy closes the loop on the sustainability journey of an organisation by optimising for energy usage, operations, and recycling. Completing this circle requires more than just attention to recycling and waste management efforts — you’ll need a deliberate strategy throughout the procurement and design phases of your business, infrastructure, and operations.

It’s also important to remember that measurement and communication cut across the three lifecycle phases; accurate and systematic measurement is always the first step. Ascertain the investment you need to identify the right metrics, then decide how to measure them. Effective communication of both strategy and reporting is key to your organisation’s visibility.
The ROI Of Sustainability

Assessing the Total Economic Impact™ (TEI) of sustainability initiatives is broad and complex, but it’s critical to making the case for sustainability investments defensible with investors and your executive leadership. It’s important to do this systematically, with an informed preliminary analysis to ascertain that the right investments can indeed return value over a calculable period of time.

Forrester’s TEI model uses a framework of benefits, costs, flexibility, and, importantly, risks (see Figure 2). Here are the top four factors that showcase the return on investment of incorporating sustainability into your organisation’s tech strategy.

**Figure 2**

Benefits
(Impact of business)

Costs
(Impact of budget)

Flexibility
(Options)

Uncertainty
(Impact of assumptions)

Risk

Total Economic Impact

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Risk is an important modulator to ensure a realistic result.
The ongoing costs of managing a sustainability initiative could be higher if more people are required, or the impact on employee engagement might be lower because of other initiatives already in place addressing the staff turnover issue. There are also risks in not implementing a sustainability initiative: government regulation penalties, customer perception, and employee experience.

Costs center heavily on people and tooling.
Four cost categories are included in the framework: planning and implementation costs, incremental product development costs, ongoing costs, and operational project costs.

Benefits include new opportunities, savings, and penalty avoidance.
We quantify five benefit categories in the framework: incremental profit, savings from improved employee retention, operational energy savings, increased compliance, and savings from a reduced rate of interest.

Flexibility in the model allows for each organisation's unique variations.
Flexibility — as it pertains to Forrester's TEI model — is about capturing potential future benefits of investments. In this case, the reduced compliance benefit reflects how investing in sustainability initiatives today makes compliance easier and less expensive for the future. Our research highlights the fact that managing suppliers can be complicated and time consuming, inducing a sense of a "black box" of unknowns. When you tackle such complexity sooner rather than later, it becomes easier to clarify the impact of procurement and supplier choices on your sustainability footprint.
While assessing your potential sustainability ROI, one of the most important things to keep in mind is to not expect a quick win — strong sustainability ROI takes time. Important upfront costs in setting up a holistic sustainability approach for organisations include third-party independent assessments and time spent on planning and implementation efforts. Our framework also assumes ongoing product development investment to drive product-related sustainability innovations. Incremental profit (driven by higher revenue) and reduced employee voluntary turnover are the key benefit drivers and will typically take some time to gain traction.

For example, using our TEI model on a hypothetical company resulted in a high-level financial analysis balancing the costs and benefits over five years. The ROI was 33%, and the payback period was 43 months. This is clearly a mid- to long-term investment, with the upside limited in the first few years. Evaluate your risks, costs, benefits, and flexibility to determine your estimated ROI of sustainability initiatives using the example below (see Figure 3).

**Figure 3**

<table>
<thead>
<tr>
<th>Total costs</th>
<th>Initial</th>
<th>Year one</th>
<th>Year two</th>
<th>Year three</th>
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<tbody>
<tr>
<td></td>
<td>€1,667,427</td>
<td>€4,029,618</td>
<td>€5,104,181</td>
<td>€3,798,032</td>
</tr>
<tr>
<td>Total benefits</td>
<td>€0</td>
<td>€189,480</td>
<td>€4,110,616</td>
<td>€7,058,234</td>
</tr>
<tr>
<td>Net benefits</td>
<td>€1,667,427</td>
<td>€4,029,618</td>
<td>€9,414,916</td>
<td>€3,260,201</td>
</tr>
</tbody>
</table>

| ROI | 33% |
| Payback period (months) | 43.0 |

**Table:**

<table>
<thead>
<tr>
<th>Total costs</th>
<th>Year four</th>
<th>Year five</th>
<th>Total</th>
<th>Present value</th>
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<tbody>
<tr>
<td></td>
<td>€3,798,032</td>
<td>€3,798,032</td>
<td>€22,195,325</td>
<td>€17,354,953</td>
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<tr>
<td>Total benefits</td>
<td>€9,626,023</td>
<td>€12,431,342</td>
<td>€33,415,696</td>
<td>€23,166,003</td>
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<tr>
<td>Net benefits</td>
<td>€5,827,991</td>
<td>€8,633,309</td>
<td>€11,220,371</td>
<td>€5,811,050</td>
</tr>
<tr>
<td>ROI</td>
<td>33%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Payback period (months)</td>
<td>43.0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Whether you are a producer of technology or a consumer of it, your customers, your employees, and your organisation’s bottom line are all affected by the strength of your sustainability strategy. Thanks to technology, we have never been as powerful or as vulnerable as we are right now. Fortunately, technology enables us to solve some of the world’s toughest problems, even those that technology itself creates. A journey of a thousand steps begins with the first one, and we hope this research showcases why and how these initial steps must be taken — not in the future, but right now.
Forrester Can Help

Forrester offers a variety of resources and support for your sustainability initiatives. To learn more about how to incorporate sustainability into your technology strategy, check out the following complimentary resources or get in touch to speak with one of our analysts about your specific needs.

Incorporating Sustainability Into Your Tech Strategy
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Introducing The Forrester Tech Sustainability Framework
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