

Is the automotive industry on track to meet its sustainability targets?

New report from Capgemini finds:

- The current level of maturity for initiatives across the industry isn't enough to markedly reduce emissions that meet the Paris Agreement targets.
- Investment¹ in sustainability initiatives is declining – from 1.22% of annual revenue on average per year in 2019 to 0.85% in 2022- and is expected to remain at a similar level at 0.86% of revenue per year by 2026.
- Suppliers are investing a greater share of revenue (0.93%) towards sustainability per year than their original equipment manufacturers counterparts (0.79%).
- A small group of organizations with high implementation levels for top sustainability initiatives, have already realized 9% improvement, on average, in their emissions since 2018, compared to 5% for the overall industry.

Paris, October 17, 2022 – Implementation levels for top sustainability² initiatives have improved only marginally, or even reduced in some areas, [since 2019](#), according to the latest report from the Capgemini Research Institute, '[Sustainability in Automotive: From Ambition to Action](#)'. Recent challenges, such as ongoing chip shortages, and supply chain issues have forced automotive organizations to re-focus their priorities.

According to the report, directives such as [The European Green Deal](#) and [The Paris Agreement](#) are pushing the automotive industry to pursue more sustainable solutions to meet carbon-neutral targets. A large majority (70%) of the automotive industry is focused on overall emissions reduction across the value chain, including scope 1, 2, and 3 emissions³, from sourcing to end-of-life processes. Two-thirds (64%) of automotive organizations expect to achieve a reduction in carbon emissions by 2040, and 57% are going beyond ESG compliance to make sustainability a key business driver. However, since 2018, the automotive industry has reduced overall Greenhouse Gas (GHG) emissions by only 5%, with a further 19% reduction expected to be realized by 2030. At current rates, automotive organizations are not in line to meet the overall goal of net zero emissions by 2050 under the Paris Agreement.

The report finds that only a small group of organizations (less than 10%) are showing the way towards a sustainable automotive industry. Those report that they expect reducing their Greenhouse Gas (GHG) emissions by 35% by 2030 (compared to an average projected reduction of 19% across the automotive industry). At the same time, their operational efficiency is expected to improve by 22% through 2026 (compared to 16% for the rest of the organizations in the same period) as a direct result of their

¹ Investment in sustainability initiatives is defined as investment in technology, processes, and skills to meet organization's sustainability goals, not including large capex investments that automotive organizations make in EV R&D/manufacturing among others.

² Sustainability in the automotive industry involves a comprehensive view of planet- and human-friendly operations, processes, products, and services. This includes a range of elements from "Sustainable R&D and product development" to "Sustainable IT" and span the automotive value chain, from R&D to Mobility Services. For the purpose of this research, the Capgemini Research Institute has focused on environmental sustainability aspect out of the three "ESG" aspects.

³ Scope 1 greenhouse gas emissions are direct emissions released to the atmosphere from owned or controlled sources. Scope 2 emissions are indirect greenhouse gas emissions other than scope 1 emissions that are generated in the wider economy. They occur as a result of the activities of an entity, but from sources not owned or controlled by that entity's business. Some examples are extraction and production of purchased materials, transportation of purchased fuels, use of sold products and services. Scope 3 also includes emissions associated with contracted solid waste disposal and wastewater treatment. Some Scope 3 emissions can also result from transportation and distribution (T&D) losses associated with purchased electricity.



sustainability initiatives that enhance transparency across the value chain. They also enjoy a stronger employer 'brand' boost to their attractiveness to talent owing to their recent sustainability initiatives (18% versus 10% for the rest).

Deployment of initiatives has improved only in select focus areas

Automotive organizations are focusing on emissions reduction and prioritizing initiatives over which they have direct control and influence – such as manufacturing and decarbonizing vehicle fleets. The report finds that the deployment of sustainable supply chain initiatives has risen to 57% in 2022 from 42% in 2019, and responsible sourcing of metals has risen to 44% from 33% in the same period.

However, the report shows a drop in the implementation of circular economy initiatives. While 73% of organizations agree that contribution to a circular economy is a necessity to achieve their long term financial and competitive goals, only 53% have a circular economy strategy in place and less than half (45%) currently adhere to circularity principles⁴ throughout their value chain.

Transition to Electric Vehicles remains complex and represents only one part of the solution

A demand for GHG emission reductions has further pushed automotive organizations to focus their efforts on Electric Vehicles (EVs). To drive this impact over the lifetime of an EV, it is essential that original equipment manufacturers (OEMs) ensure circularity of production and consider the end-of-life process for EV batteries across the value chain. Fewer than half (41%) of executives surveyed note that their organization has a dedicated sustainability initiative for battery end-of-life; this drops to 28% for second life batteries. Despite increasing sales of EVs, customers are reluctant to switch to electric due to range anxiety and costs for charging, find the ease of availability for internal combustion engine (ICE) vehicle spare parts and servicing options more attractive. Rising costs across the energy grid as well as complicated charging methods are halting progress and adoption.

Lack of key performance indicators causing implementation to stagnate

The report finds that poor integration of key sustainability performance indicators into day-to-day activities and performance management are causing implementation to stagnate: 73% of executives agree that the adoption of sustainability practices in their day-to-day activities and processes has increased only marginally or remained the same in the last 2–3 years. Only 10% of organizations have aligned performance objectives with key sustainability goals for non-managerial employees. Difficulty in collecting, managing, and analyzing sustainability data is also one of the top challenges: only 12% of executives currently state that their organization has full-scale deployment of a platform for measuring, monitoring, and reporting on sustainability initiatives.

The report finds that, however, accountability across an organization is imperative for defining goals and sharing progress on sustainability initiatives. As stakeholders put a microscope on ESG compliance, data from the entire supply chain needs to be quantified to show transparency and to provide a baseline for defining business key performance indicators.

Embedding sustainability in the business model

As regulations become stricter and expectations from consumers and society increase, automotive organizations must be realistic with the current and projected levels of investment. The automotive industry is poised to enter a crucial decade as it pivots its product portfolio from ICE vehicles to EVs. While leading

⁴ The circular economy is a concept, regenerative by design, aiming at gradually decoupling growth from the consumption of finite resources, hence moving away from the "take-make-waste" linear model. Circular models help make "optimal use of resources by avoiding waste over a product's lifetime, maintaining products at their highest value, and regenerating raw materials to their initial state, back to nature." Source: <https://ec.europa.eu/eurostat/web/circular-economy>.



organizations have positioned themselves well for this change, a more holistic approach is needed to encompass new processes, people, and the planet.

"The automotive industry is entering a crucial decade largely defined by its ability to go all-electric. But while sustainability is credited as a top priority, the industry as a whole is falling behind. Automotive organizations must think practically about their sustainability approach if they are to reach the targets set out in the 2050 Paris Agreement. This includes a significant and renewed commitment to the circular economy that focuses on the full lifecycle of the vehicle as well as the inclusion of scope 3 emissions," said Alexandre Audoin, Global Head of Automotive Industry at Capgemini. *"Accountability is imperative for defining goals and KPIs across the entire organization and progressing against these targets."*

For more information or to download the report, visit: [link to report](#).

Methodology

The Capgemini Research Institute surveyed 1,080 senior executives from large organizations, comprised of automotive OEMs with more than \$1 billion in annual revenue, automotive suppliers, and pure-play EV manufacturers, across 9 countries, in July-August 2022. Executives focus areas covered corporate strategy, product strategy, planning, finance, supply chain, sustainability, aftersales, mobility services, sales and marketing, manufacturing and production, operations, IT, engineering, R&D and design. The respondents were at Director level or above, responsible for automotive organization's sustainability strategy, initiatives, governance, investments, and any benefits and outcomes from those. In addition, 20 in-depth interviews were also conducted with senior industry executives and experts.

About Capgemini

Capgemini is a global leader in partnering with companies to transform and manage their business by harnessing the power of technology. The Group is guided everyday by its purpose of unleashing human energy through technology for an inclusive and sustainable future. It is a responsible and diverse organization of over 350,000 team members in more than 50 countries. With its strong 55-year heritage and deep industry expertise, Capgemini is trusted by its clients to address the entire breadth of their business needs, from strategy and design to operations, fueled by the fast evolving and innovative world of cloud, data, AI, connectivity, software, digital engineering, and platforms. The Group reported in 2021 global revenues of €18 billion.

Get The Future You Want | www.capgemini.com

About the Capgemini Research Institute

The Capgemini Research Institute is Capgemini's in-house think-tank on all things digital. The Institute publishes research on the impact of digital technologies on large traditional businesses. The team draws on the worldwide network of Capgemini experts and works closely with academic and technology partners. The Institute has dedicated research centers in India, Singapore, the United Kingdom, and the United States. It was recently ranked #1 in the world for the quality of its research by independent analysts.

Visit us at <https://www.capgemini.com/researchinstitute/>